



City of Lancaster

# HOME Funded First Time Homebuyer Program

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Program Policies and Procedures

Draft - March 2022

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**CITY OF LANCASTER  
FIRST TIME HOMEBUYER PROGRAM**

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**CITY OF LANCASTER  
FIRST TIME HOMEBUYER PROGRAM  
HOME FUNDED**

**POLICIES AND PROCEDURES**

**SECTION I: INTRODUCTION TO THE FIRST TIME HOMEBUYER PROGRAM**

**A. PURPOSE OF THE FTHB PROGRAM POLICIES AND PROCEDURES**

The purpose of this First Time Homebuyer Program (the “FTHB” or the “Program”) Policies and Procedures manual is to describe the program and set forth the roles of the City of Lancaster (the "City"), Participating Lenders, the Program Administrator (the "Administrator"), and Program Applicants. This manual contains a description of the FTHB Program requirements, processing procedures, and program policies. The borrower, purchase price, and mortgage underwriting requirements as set forth in federal regulations and City policies are also described. FTHB processing forms are included as exhibits to this document, and additional program information is contained in the Addendums. The City may revise these guidelines from time to time, and notice will be given by the City only for significant program changes.

Participating Lenders are expected to be well informed about all local, state and federal requirements as set forth in this Manual. All staff involved in the Program must be knowledgeable regarding these requirements before a Program application is accepted. A Lender shall disqualify those applicants where the submitted information indicates that the applicant or the proposed residential acquisition does not qualify for the program.

**B. PROGRAM SUMMARY**

The First Time Homebuyer Program has been designed to assist low-income families and individuals who wish to purchase a home, but are unable to secure a sufficient down payment to qualify for an affordable loan. The intent of this program is to offset some of the impact of high housing costs on low-income households, while encouraging investment in the community and helping to eliminate overcrowding in the City of Lancaster. A Program loan provides down payment assistance in the form of a silent second mortgage to eligible first time purchasers in the City of Lancaster.

The City of Lancaster receives an allocation of funds from the U.S. Department of Housing and Urban Development (“HUD”) HOME Investment Partnerships Program (“HOME”), provided under the authority of the HOME Investment Partnership Act, Title II of the Cranston-Gonzales National Affordable Housing Act, as amended, 42 U.S.C. 12701 et seq. The City is making financial assistance available through its HOME funded First Time Homebuyer Program to assist eligible persons and families of low-income to obtain housing at affordable housing cost. Additionally, the Program assists the City's efforts to achieve implementation of its housing objectives, and to increase, preserve and improve decent housing and suitable living conditions for persons of low-income.

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### **C. MARKETING PLAN**

The public will be informed about the Program by the mailing of press releases and notices, newspaper announcements and by distributing informational brochures. The Program will also be advertised on the City web-site and by other means as they become available. Program staff will provide eligibility requirements to interested applicants. Program staff will also publish a brochure explaining the Program and its guidelines, and will provide a program summary with eligibility requirements as part of the application packet.

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## **SECTION II: PROGRAM REQUIREMENTS**

### **A. OVERVIEW**

The Applicant, Purchase Price, and Loan Underwriting requirements discussed in this section are incorporated into the Program documents contained as Exhibits to this manual. All Applicants and Program participants must complete and sign the appropriate Program documents and attest to their validity. The Lender will be required to submit certifications on which it will state that to the best of its knowledge material misstatements do not appear in the Program application and other Program documents. If the Lender becomes aware of Applicant misstatements, whether negligently or willfully made, it must notify the City immediately. The City will take all appropriate actions to enforce Program requirements.

The Lender should also be aware of, and advise Applicants that penalties are provided by Federal and California law if a person makes a false statement or misrepresentation to obtain participation in this Program. In an attempt to ensure that all requirements are clear, Affidavits are required of each Applicant (See forms: FTHB-1, FTHB-2, FTHB-3, and FTHB-4).

### **B. DEFINITIONS**

As used in this Program Manual and all Program documents, unless the context requires otherwise, the following words and terms shall have the meanings set forth below:

**ACQUISITION COST**: Acquisition Cost is used interchangeably with Purchase Price.

**AFFIDAVIT**: Means a statement filed in connection with the Program made under oath and subject to penalties of perjury.

**AFFORDABLE HOUSING RESTRICTION**: The recordable agreement which contains the covenants, conditions, and restrictions imposed as a result of the provision of HOME loan assistance to a Participant, which must be observed and adhered to during the Participant's ownership of the HOME assisted Property.

**APPLICANT**: Any person or persons who apply for a FTHB loan under the Program.

**CITY**: The City of Lancaster, California.

**COUNTY**: The County of Los Angeles, California

**DATE OF PARTICIPATION APPROVAL**: The date the Initial Reservation Request is signed by the City.

**ELIGIBLE APPLICANT**: Any person meeting the criteria for an eligible borrower as set forth in this Manual who is in the process of securing financing for the purchase of a Principal Residence.

**ELIGIBLE DWELLING**: Real property located in Lancaster which includes: (1) a new (not previously occupied) single family detached home, condominium, townhome, or manufactured housing on a permanent foundation with permanent utility hook-ups or; (2) an existing (which has been previously occupied) single family detached home, condominium, townhome, or manufactured housing on a permanent foundation with permanent utility hook-ups; designed as

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a residential unit for one household, and which meets the criteria set forth in this Manual. An Eligible Dwelling must be acquired by the Participant for owner-occupancy and upon acquisition be used as the principal residence of the Applicant.

Homes, which are rental units at the time they are listed for sale, are not eligible under the Program unless the current renter is the purchaser. Program Participants are allowed to purchase non-owner occupied units, as long the units have been vacant for at least 90 days prior to the offer to purchase.

**EXISTING HOME:** Means a single-family, condominium or townhouse dwelling unit that has been previously occupied prior to City loan commitment.

**INCOME:** The gross income of a mortgagor (or mortgagors) is the mortgagor's annualized gross income over the next 12 months. Annualized gross income is gross monthly income multiplied by 12. Income shall be considered in accordance with the requirements of 24 CFR Part 5 as delineated in Addendum 2 and in conformance with the Technical Guide for Determining Income and Allowances for the HOME Program (Addendum 5). The income to be taken into account in determining gross income is income of the mortgagor (or mortgagors) and any other person who is expected to both (1) live in the residence being financed and (2) to be secondarily liable on the mortgage. If the co-borrower, co-signer or co-habitor meets both requirements in the sentence above, include his/her income in your gross income calculations. Income includes the income of all household members inclusive of dependent children over 18 years of age.

**LENDER:** Any direct funding financial institution which is licensed to do business in the State, and has met all of the requirements established by the City to participate as a Lender in the FTHB Program.

**NEW HOME:** Means a single-family, condominium or townhouse dwelling unit that has never been previously occupied prior to City loan commitment.

**NEW MORTGAGE LOAN:** A new mortgage originated in conjunction with a Program loan; a mortgage that has not been transferred or assumed.

**OWNERSHIP INTEREST:** Any of the following interests in residential real property:

- a. Fee simple interest;
- b. Joint tenancy;
- c. Tenancy in common;
- d. Life estate;
- e. Interest held in trust for the Applicant that would constitute a present ownership interest if held by the Applicant. Ownership does not include a remainder interest, a lease with or without an option to purchase, an expectancy to inherit an interest in a Principal Residence, or any interest acquired on the execution of the purchase contract.

**PARTICIPANT:** An approved Applicant that is funded with a FTHB program loan.

**PRIMARY LOAN:** A purchase money loan used to acquire a residential property for which the FTHB loan is provided. The loan is provided to an Eligible Applicant to finance the purchase of an Eligible Dwelling, which meets the City requirements set forth in this Manual.

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**PRINCIPAL RESIDENCE:** This is the home where the Participant will principally live. A temporary absence due to special circumstances, such as illness, education, business, military service, or vacation will not change the principal residence status, provided that any temporary absence in excess of 14 days must be approved in writing by the City. The Applicant must occupy the Principal Residence as their permanent residence.

**PROGRAM STAFF:** The City of Lancaster staff or any designee appointed by the City.

**PURCHASE PRICE:** The cost of acquiring the residence, excluding usual and reasonable settlement or financing costs, and excluding the value of services performed by mortgagor in completing the acquisition of the residence.

**RELATED PERSON:** A "related person," as that term is defined under the Internal Revenue Code and applicable regulations: siblings, spouses, ancestors and lineal descendants or entities that are more than 50% owned by the Applicant or any other Related Persons.

**SINGLE-FAMILY RESIDENCE:** A housing unit intended for and used for occupancy by one household.

### **C. FTHB LOAN**

The FTHB loan is a down-payment assistance second mortgage. The maximum amount of program assistance will be based on the lesser of: (1) the amount required to maintain a 33% front end ratio (financing gap), (2) 40% of the sales price of the property, inclusive of eligible closing costs or (3) \$150,000.

See Exhibits 6 and 20 for calculation and approval of Gap financing.

The maximum purchase price for the property being acquired may not exceed the current HOME Maximum Purchase Price limits established in accordance with the requirements of 24 CFR 92.254(a)(2). The current maximum purchase price permitted under the Program is \$570,000 for Existing Homes and \$570,000 for New Homes (values effective June 1, 2022). These maximum purchase price values are in conformance with the requirements of 24 CFR 92.254(a)(2)(iii) but are adjusted annually or through a request to HUD.

The amount of potential HOME loan assistance which can be provided, when considered with the maximum purchase price values is in conformance with regulatory requirements, and does not exceed the currently established Section 221(d)(3) HOME subsidy limits per unit (see Addendum 1).

This FTHB loan is a non-interest-bearing loan, with repayment deferred until the sale, transfer, lease, or encumbrance of all or any interest in the Property without the City's prior written consent, upon a declaration of default of the Affordable Housing Restriction, or the triggering of an acceleration clause of the promissory note. FTHB Program loans will incorporate forgiveness terms on all promissory notes. Loan amounts will be forgiven at a rate of ten percent (10%) per completed year, starting with year six (6), further defined as the 61<sup>st</sup> month through the 72<sup>nd</sup> month, and continuing for the remaining ten (10) years, further defined as the 73<sup>rd</sup> month through

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the 180<sup>th</sup> month, coinciding with the term of affordability, resulting in a 100 percent grant at the end of year 15, further defined as at the end of the 180<sup>th</sup> month.

The FTHB Loan is not assumable except under the following limited circumstances:

- a. The transfer of the Property to the surviving joint tenant by devise, descent or operation of the law, on the death of a joint tenant.
- b. A transfer of the Property where the spouse becomes an owner of the property;
- c. A transfer of the Property resulting from a decree of dissolution of marriage, legal separation or from an incidental property settlement agreement by which the spouse becomes an owner of the Property.
- d. A transfer to an inter vivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

#### **D. LOAN REQUIREMENTS**

1. Primary Loan Requirements: A FTHB Loan may only be issued in conjunction with a New Mortgage Loan. The Lender must obtain from the Applicant, using the Program affidavits, a statement to the effect that the mortgage being acquired, in connection with the FTHB Loan, will not be used to acquire or replace an existing mortgage or land sales contract.
2. Transferability: The FTHB loan is not transferable.
3. Secondary Market: The lender must determine whether a subsidized financing program meets Fannie Mae requirements. To sell primary mortgage loans to Fannie Mae where such assistance is provided, the lender must execute and submit a specific warranty for the particular subsidized financing program. The lender will also be responsible for determining if the FTHB loan meets Freddie Mac, FHA and VA requirements.
4. Any direct lender can be a First Time Homebuyer Program Lender, as long as they meet and follow all FTHB program requirements. When developed, a lender list of previous participating lenders shall be made available to buyers, when requested.
5. Primary Loan Terms: The primary loan must be a fixed rate, 30 year fully amortized loan, with terms, loan conditions, and costs consistent and competitive with current market conditions.
6. Participants in the First Time Homebuyer Program must contribute a minimum of 3% of the Acquisition Cost toward the purchase transaction, and additional funds as available for closing costs. The City assistance for eligible Participants shall be the lower of:
  - a. The level of Program Loan funding that will result in a monthly housing expense which does not exceed the established maximum front end ratio of 33% (financing gap) in addition to reasonable closing costs.
  - b. Up to 40% of the purchase price as a down-payment in addition to reasonable closing costs on an as-needed basis to qualify for the first loan and to make the monthly payment affordable for the 30 year term of the primary loan; or,

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- c. No more than \$150,000.

The City Loan in conjunction with the Primary Loan and the Applicant down-payment amounts must provide sufficient resources to address all property acquisition costs. In the event that the total resources available is insufficient to close escrow, the City Loan will not be approved.

In limited circumstances, on a case by case basis, City Loan funding consideration will be provided to first lender approvals which fall outside of this affordability standard, based on exceptional mitigating circumstances.

- 7. The Primary Lender must provide to the Applicant the maximum loan amount available at a market competitive fully amortized fixed rate, based on its underwriting and review of their capacity. The Applicant must accept the maximum loan amount offered by the Primary Lender.

#### **E. TERMS OF THE PROGRAM LOAN**

- 1. The City second mortgage is a non-interest (0%) bearing loan, with all payments deferred until sale, transfer, lease, or encumbrance of all or any interest in the Property without the City's prior written consent, upon a declaration of default of the Affordable Housing Restriction, or the triggering of an acceleration clause, whichever occurs first.
- 2. FTHB Program loans will incorporate forgiveness terms on all promissory notes. Loan amounts will be forgiven at a rate of ten percent (10%) per completed year, starting with year six (6), further defined as the 61<sup>st</sup> month through the 72<sup>nd</sup> month, and continuing for the remaining ten (10) years, further defined as the 73<sup>rd</sup> month through the 180<sup>th</sup> month, coinciding with the term of affordability, resulting in a 100 percent grant at the end of year 15, further defined as at the end of the 180<sup>th</sup> month.
- 3. An acceleration clause shall be in effect when the property is no longer the borrower's principal residence, upon transfer, upon failure to report changes, including but not limited to additions, fire and vandalism, borrower failure to maintain current payments on the primary loan or other obligations secured by the property, borrower failure to maintain current payments on property taxes, borrower failure to maintain and submit verification of hazard insurance, or upon discovery of willful misrepresentations in connection with the program.
- 4. A Promissory Note shall evidence the City Loan and a Deed of Trust on the property shall secure the City Loan.
- 5. The borrower shall maintain current payments on all obligations secured by the property, including, but not limited to, the first deed of trust, property taxes, and hazard insurance.
- 6. Borrowers may request a temporary waiver of the principal residence requirement in situations involving extreme hardship. The granting of such waiver is exceptionally limited and shall be at the sole discretion of the City. Rental of the property shall be prohibited without the express written consent of the City.

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## **F. AFFORDABILITY**

Properties assisted with HOME First Time Homebuyer funds are required to remain affordable for a minimum designated length of time. In compliance with the provisions of 24 CFR 92.254(a)(4), the affordability for all HOME assisted Program loans by the City is designated as 15 years for existing construction and 20 years for new construction.

If there is a property sale, transfer, or program default of the conditions of the promissory note or the Affordable Housing Restriction, the City will provide for the recapture of HOME funds in accordance with the following:

1. Upon the occurrence of a sale, transfer, or program default of the conditions of the promissory note or the Affordable Housing Restriction, the entire amount of the HOME investment provided by the City loan will be due to the City.
2. Notwithstanding the preceding, In the event that the Net Proceeds resulting from a sale are not sufficient to provide for the full return of the Borrower's investment inclusive of the original down payment and capital improvements performed on the acquired property (subject to City verification and approval), then the Borrower shall be entitled to recover their original down payment amount and City approved capital improvement amounts before the City recapture of the HOME investment amount (the City Loan). For the purposes of this calculation, net proceeds shall mean the sales price minus the repayment of the Primary Loan undertaken to acquire the Property (other than HOME funds) and any closing costs. Capital improvements means those improvements legally made by Homeowner to the Property after the closing of Homeowner's purchase of the Property, with a minimum cost of Two Thousand Five Hundred Dollars (\$2,500) per item, and a useful remaining economic life of not less than five (5) years, as approved by the City and documented by invoices and receipts which the Homeowner certifies to be true and correct.

## **G. APPLICATION PROCEDURES**

The Program Application must be accompanied by the following documents in order to be considered a complete and acceptable application package:

1. Completed City of Lancaster First Time Homebuyer Application
2. Photo IDs for all adult household members (those 18 years of age and older)
3. Signed copies of last three (3) years federal tax returns
4. Copies of three (3) consecutive months current pay stubs
5. Last three (3) consecutive months of bank statements and asset statements
6. Documentation in the form of a bank statement or other acceptable asset statements, of seasoned cash funds (90 days) available for borrower's down payment and closing costs
7. Signed 4506-T
8. Signed Fair Lending-ECOA Notice
9. Applicant signed Income Verification Form and signed Employment Verification Form

An application will not be considered complete if any of the above items are not received at the time of application submission. There will be no exceptions to this rule.

Upon receipt of a complete application package, Program Staff will:

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1. Review submitted application materials to determine Program participation eligibility.
  2. Package applications for Loan Review Committee approval.
  3. Prepare Exhibits 6 and 7 for Loan Review Committee consideration
  4. Conduct the Loan Review Committee meeting.
  5. Notify applicant of the Loan Review Committee determination.

## H. APPLICANT PROCESSING

All Program Applications will be processed by program staff in the priority order established by the date of receipt of a completed application (first come, first served).

## I. APPLICANT ELIGIBILITY REQUIREMENTS

Applicant means any person or persons meeting the criteria for an eligible borrower set forth in these Guidelines who is in the process of securing financing for the purchase of a Principal Residence.

The Applicant must meet credit and underwriting criteria established by the Participating Lender providing the primary mortgage loan, taking into account the value of the FTHB loan. The applicant household shall have sufficient income and credit worthiness to qualify for primary financing as defined by their selected lender. The household shall also have sufficient assets to provide a minimum down payment of three percent (3%) of the acquisition cost of the property and if necessary, the payment of all applicable closing costs not addressable by the City Program Loan. Provided that the Participating Lender provides for a lower down payment requirement, at the sole discretion of the City, this requirement may be modified or waived in order to allow households meeting all other eligibility criteria to participate in the program.

Household assets shall not exceed the combined total of applicant's portion of the down payment, estimated closing costs, up to twelve months total monthly housing costs, and an emergency allowance of 12 months of household expenses in additional liquid or convertible assets. **Co-owners, other than owner occupants, will not be permitted.** This rule is included to prohibit investors from utilizing qualified persons to purchase property for their own investment purposes.

### Conflict of Interest

No person who is an employee, agent, consultant, officer, or elected official or appointed official of the City who exercise or have exercised any functions or responsibilities with respect to this HOME assisted Program or who are in a position to participate in a decision-making process or gain inside information with regard to these activities may obtain a financial interest or financial benefit from a HOME-assisted activity, or have a financial interest in any contract, subcontract, or agreement with respect to the HOME-assisted activity, or the proceeds from such activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one (1) year thereafter. Immediate family ties include (whether by blood, marriage or adoption) the spouse, parent (including a stepparent), child (including a stepchild), brother, sister (including a stepbrother or stepsister), grandparent, grandchild, and in-laws of a covered person.

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## First Time Homebuyer

Based on applicable federal and state regulations, in order to qualify for a FTHB loan, a borrower must also meet the following requirements:

### **1. THREE YEAR NON-OWNERSHIP REQUIREMENTS**

The Applicant applying for a Program loan cannot have had an ownership interest in a Principal Residence at any time during the three-year period ending on the date the Program Loan is executed. This requirement qualifies the borrower as a "first-time homebuyer" under federal law. The Lender must obtain from the borrower an affidavit to the effect that the borrower had no ownership interest in a Principal Residence at any time during the three-year period prior to the date on which the mortgage relating to FTHB loan is executed. This must be verified by the Lender's examination of the borrower's federal tax returns for the preceding three (3) years, to determine whether the borrower has claimed a deduction for mortgage interest or taxes on a Principal Residence.

To demonstrate compliance with this three-year requirement, Applicant(s) must complete and sign the FTHB Program affidavits and provide copies of their last three (3) years of signed state and federal tax returns (or acceptable alternative exhibits acceptable to the City).

- a. The Applicant(s) must submit with the application to the City, signed 1040A, 1040EZ, or 1040 federal income tax returns for the three (3) preceding years with all schedules and attachments which reflect no deductions for mortgage interest or real estate taxes for a Principal Residence.
- b. If the Applicant(s) has filed the returns for the last three (3) years, completes and signs the required affidavits, but is unable to produce the signed returns, the City will accept IRS transcripts provided directly to the City.
- c. In the event the Applicant(s) was not obligated to file federal income tax returns for any of the preceding three (3) years, it will be necessary for the Lender to obtain from the Applicant(s) a completed and signed Income Tax Affidavit which is required in place of (a) or (b) above, along with the other Program Affidavits. This document is to be forwarded to the City with the Application Affidavit and the Lender Initial Certification. The Income Tax Affidavit must be accompanied by documented proof of the reason for not filing tax returns. For example, if the Applicant was in school, he/she/they would have to submit a copy of transcripts to support the status of the Applicant for that period of time. Affidavit must also be accompanied by documented proof that the Applicant was a renter during the specified period (i.e. notarized letter from the landlord or manager, canceled checks, or rent receipts). The City shall also obtain an IRS verification of non-filing for any household members who did not file returns.
- d. When a FTHB application is submitted during the period between January 1 and April 15 and the Applicant has not yet filed his/her/their Federal income tax return for the preceding year with the IRS, the City may, with respect to such year, rely on an affidavit of the Applicant that the Applicant is not entitled to claim deductions for taxes or interest on indebtedness with respect to property constituting his/her/their Principal

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Residence for the preceding calendar year. The affidavit must be forwarded to the City with the Application Package.

- e. If the tax returns indicate the Applicant took a deduction for mortgage interest or real estate taxes on property claimed not to be the Principal Residence, documentation will be required to show proof of rental (i.e., rent receipts, canceled checks).

The Lender is cautioned that in the above noted situations involving issuance of a conditional FTHB loan Commitment, the Lender may be closing the loan without the benefit of the City review of the certified tax returns prior to closing. In the event the certified tax returns do show a deduction for interest or taxes on a Principal Residence, or in the event the certified tax returns are not obtained; the City will not issue the FTHB loan, The Lender, at its option, may forward federal tax return exhibits to the City for review prior to loan closing.

- f. Notwithstanding the above, at the discretion of the City, this requirement may be modified or waived in order to allow households meeting all other eligibility criteria to participate in the program. Special circumstances shall be documented and consideration given to households that have sold or transferred an ownership interest because of death or illness of spouse or dissolution of marriage, job-related relocation, or other significant reasons.

## **2. ADDITIONAL FIRST TIME HOME BUYER CRITERIA**

“First-time homebuyer” means an individual or individuals, or an individual and his or her or their spouse have not owned a home during the three-year period prior to the purchase of a home with HOME assistance, except that the following individual or individuals may not be excluded from consideration as a first-time homebuyer under this definition:

- a. A “Displaced Homemaker” who, while a homemaker, owned a home with his or her or their spouse or resided in a home owned by the spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive twelve-month period and who has been unemployed or underemployed, experienced difficulty in obtaining or upgrading employment and worked primarily without remuneration to care for his or her or their home and family.
- b. A Single Parent who, while married, owned a home with his or her or their spouse resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant.
- c. An individual or individuals who owns or owned, as a principal residence during the three-year period before the purchase of a home with HOME assistance, a dwelling unit whose structure is:
  - i. Not permanently affixed to a permanent foundation in accordance with the local and state regulations; or

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- ii. Not in compliance with state and local building codes and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

### **3. PRINCIPAL RESIDENCY REQUIREMENT**

The Applicant must use the housing being purchased with the FTHB assistance as a Principal Residence. The Lender must obtain from the borrower, using the Program affidavits; a statement of the borrower's intent to use the residence as his/her/their Principal Residence within a reasonable time (60 days) after the FTHB loan is issued. The affidavit further provides that the FTHB loan holder will notify the Lender and the City if the residence ceases to be the Applicant's Principal Residence.

### **4. INCOME ELIGIBILITY**

Qualified applicants must have an annual gross household income which does not exceed the limits for low-income households (80% of area median income), adjusted for household size, as delineated within the current Los Angeles County Income Limit Table (see Addendum 1). Income determinations must be based on a review of supporting source documentation in conformance with the requirements of this Policies and Procedures manual, 24 CFR Part 92, and the Technical Guide for Determining Income and Allowances for the HOME Program (see Addendum 5). If an income determination or the supporting documentation used to make the determination is greater than six (6) months old at the time of committing funds to the potential homebuyer, then a re-examination of the income shall be performed prior to loan funding.

Annualized gross income shall be computed in conformance with the requirements set forth under 24 CFR Part 5.609 (see Addenda 2 and 5). Income is based on a projection of anticipated income for the next twelve (12) months. The income to be taken into account in determining gross income is income of the mortgagor (or mortgagors) and any other person who is expected to both (1) live in the residence being financed, and (2) to be secondarily liable on the mortgage. If the co-borrower, co-signer, or co-habitor meets both of the requirements above, his/her/their income must be included in gross income calculations. The minimum verifiable household tenure requirements (how long the household has been established and documented as a household) shall be no less than 12 months from the date of the application. Income includes the income of all household members.

Income cannot exceed the listed income limit maximums prior to funding the City Loan. If a higher income amount is utilized for consideration of the first mortgage prior to closing, the City must be notified accordingly, and a reconciliation of the income variances performed.

### **SELF-EMPLOYED OR SEASONAL EMPLOYEES**

In specific instances, such as self-employed or seasonal persons, the Applicant's monthly gross income information can be derived and projected based on the available loan documents executed during the six-month period preceding the date of the closing of the mortgage provided that any income not included in the loan documents must be included for the Program. Thus, for example, if the mortgagor does not include alimony on the loan documents with the Lender, the Lender in determining gross monthly income, must determine the amount of alimony and add that amount shown on the loan documents. Under these

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circumstances, the formula that the Lender uses in determining the gross monthly income of self-employed persons and/or seasonal workers is acceptable as long as the Lender includes any other income sources that are required to be added.

### **INCOME TO BE INCLUDED**

- a. Income of all mortgagors shall be included in gross income calculation for the Program.
- b. Income of anyone else who will both live in the residence and be secondarily liable on the mortgage shall be included.
- c. Income of all household members in conformance with the provisions of the Technical Guide for Determining Income and Allowances for the HOME Program (see Addendum 5).
- d. Income does not have to be included if there is a co-signer who signs only the note or a separate personal guarantee; is not on the grant deed, and will not live in the residence.
- e. Strict penalties may be imposed on any Applicant making a material misstatement, misrepresentation or committing a fraudulent act on documents submitted to obtain a FTHB loan. Any person making a negligent or fraudulent material misstatement or misrepresentation in any affidavit or certification made in connection with the application for or the issuance of a FTHB loan shall be subject to all applicable fines and penalties.

### **J. DETERMINING THE AMOUNT OF HOME DOWN PAYMENT ASSISTANCE**

Program funds are committed on a first come, first served basis, and funding is subject to availability.

The maximum amount of HOME assistance per unit is established by HUD and enumerated within the Section 221(d)(3) subsidy limits for Los Angeles County as delineated within Addendum 1 – Subsidy Limit Table. This subsidy limit shall be evaluated by Program Staff and the level of assistance by Program design will not exceed the indicated value for the respective property acquired. A minimum of \$1,000 in HOME funds must be invested in any assisted unit.

The City Loan is comprised of the down payment assistance and closing cost assistance. The maximum amount of program assistance will be the lesser of the amount required to maintain a 33% front end ratio (financing gap), or 40 percent (40%) of the sales price of the property, and the addition of reasonable closing costs which are not addressed by the Applicant. The maximum allowable back-end ratio under the program is 42%, subject to review on a case-by case basis in instances where the applicant has exceptional credit history.

The estimated affordable monthly payment calculation (Gap calculation) is computed on Exhibit 6 by program staff and presented to the Loan Review Committee (LRC). An additional final computation is performed on HUD 92900-WS (Exhibit 20) by Program staff upon receipt of the Primary Lender loan file. As a compensating factor for higher than allowed ratios, the LRC may consider: steady employment history, good credit history, applicant debt load, availability of

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supplemental down payment funds from the buyer, and rent payment history. The estimated City loan amount is used as the basis for preliminary Program eligibility and is subject to adjustment based on the final Primary Lender underwriting and Primary Loan amount.

Primary lender pre-approval is required by the Loan Review Committee if the underwriting ratios are above the recommended limit or credit is questionable. The Loan Review Committee (LRC) shall consist of the Housing Manager, Finance Director, and the Development Services Director, or their designees. Complete application packages will be reviewed by the LRC members for approval based upon the Program underwriter's recommendations. In order to proceed, all LRC Members must approve all Program loans and requests to subordinate Program loan liens. Should an applicant choose to appeal the decision of the LRC, the appeal must be issued in writing to the City Manager, whose decision is final. The appeal must contain all supporting documentation to substantiate the appeal.

#### **K. FIRST TIME HOMEBUYER EDUCATION**

Participants are required to complete eight (8) hours of HUD approved "in-classroom" First Time Home Buyer education class prior to City loan funding, to ensure that the buyers are educated regarding the responsibilities and obligations of homeownership. To be eligible for Program funding the Participant must submit verification of completion of this requirement in the form of a completion certificate prior to final City Loan commitment.

#### **L. PURCHASE PRICE REQUIREMENTS and MAXIMUM PURCHASE PRICE LIMITS**

The Participant selected property must be in compliance with HOME Purchase Price limits in order to qualify. The current established HOME Purchase Price Limit is \$570,000 for Existing Homes and \$570,000 for New Homes (refer to Addendum 1). This established pricing is in conformance with the requirement that assisted properties shall not exceed the HOME Maximum Purchase Price Limits established in conformance with 24 CFR 92.254(a)(2)(iii).

#### **M. ELIGIBLE DWELLING**

Property eligible for acquisition under the FTHB program includes real property located within the corporate city limits of the City of Lancaster, inclusive of: (1) a new single family home, condominium, townhome, or manufactured housing on a permanent foundation with permanent utility hook-ups (not previously occupied), or (2) an existing single family home, condominium, townhome, or manufactured housing on a permanent foundation with permanent utility hook-ups (which has been previously occupied). All eligible properties must be designed as a residential unit for one (1) household.

Homes, which are rental units at the time they are listed for sale, **are not eligible** unless the current renter is the purchaser. FTHB participants are allowed to purchase non-owner occupied units, as long the units have been vacant for at least 90 days prior to the offer to purchase. If a vacant unit is to be purchased, the owner must certify in writing that the unit has been vacant for 90 days preceding the date of the purchase agreement/offer. If the unit has been vacant for less than 90 days, or is currently tenant occupied, relocation requirements apply. If a tenant is moving out of a rental property because they are purchasing their own home, using HOME assistance the home does not have to remain vacant for 90 days prior to purchase by another FTHB to trigger relocation.

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Real Property Acquisition regulations requires that an “Acquisition Notice” containing the items listed below be provided to the seller prior to, or at the same time the purchase offer is presented by the buyer’s agent (see Exhibit 10):

1. Buyer does not have the power of eminent domain and, therefore, will not acquire the property if negotiations fail to result in an amicable agreement.
2. Buyer or buyer’s agent’s estimate of the fair market value. (An appraisal is not required; however, the grantee’s files must include an explanation, with reasonable evidence, of the basis for the estimate-like comparable.)
3. The buyer shall provide this information to the seller before making the purchase offer.
4. If the buyer’s agent does not provide the seller with an acquisition notice prior to the purchase offer, a provision in the contract should empower the seller to withdraw from the agreement after this information is provided.

Program staff shall ensure compliance with these requirements by a timely transmittal, receipt and review of the “Disclosure to Seller with Voluntary Arm’s Length Purchase Offer Notice” (Exhibit 10).

Upon Participant selection of a suitable property, Program Staff shall ensure that the required environmental review is performed prior to the commitment of HOME funds (Exhibit 13).

#### **N. RELOCATION REQUIREMENTS**

The City of Lancaster is committed to compliance with the requirements of:

1. The Uniform Relocation Act (URA) found at 42 U.S.C. 4201-4655 and 49 CFR part 24; and,
2. Section 104 (d) of the Housing and Community Development Act 1974.

#### **O. FLOOD INSURANCE REQUIREMENTS**

The majority of the City of Lancaster is classified as Zone “C” (“X”). Flood insurance is not required for eligible HOME funded transactions when acquiring a property within a designated “C” (“X”) zone. Acquired properties which are designated Zone “A” will require that flood insurance be obtained during the life of the City loan.

#### **P. HOUSING QUALITY STANDARDS REQUIREMENTS**

The property selected by the Applicant will be inspected by City of Lancaster Program staff, or their designees, prior to final City loan approval. This on-site visual inspection will be performed to ensure that the home is in compliance with city building, zoning, code requirements, health and safety, and Housing Quality Standards (HQS) at the time of the purchase.

Prior to on-site inspection, the subject building file will be checked for the property description and compliance with permit requirements. The property transfer disclosure statement will be used as

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a guide when performing the on-site inspection, and the HQS requirements contained in Addendum 4 will be followed.

Program Staff shall ensure that all repairs needed to meet the HQS requirements are met prior to the approval of any HOME funding for the proposed acquisition.

#### **Q. LEAD BASED PAINT (LBP)**

Lead-Based Paint Hazards: All housing units built prior to 1978 for which HOME funding is anticipated are subject to the requirements of this Section. Such homes must undergo a visual assessment by an individual or firm qualified to perform lead based paint visual assessments. Deteriorated paint must be stabilized using work safe methods. Clearance must be obtained after paint stabilization by a Department of Health Services (DHS) certified LBP Risk Assessor/Inspector. HOME general administrative and activity delivery funds may be used to pay for lead-based paint visual assessments, and if lead mitigation and clearance costs are incurred, these programs may incorporate the costs into the calculation of Program assistance.

Program Staff shall ensure that the following requirements are met:

1. **Notification:**

- a) Prior to homebuyer's obligation to purchase a pre-1978 home, the Buyer will be given the most recent copy of and asked to read the EPA pamphlet "*Protect Your family From Lead in Your Home*" (EPA 747- K-12-001). A signed receipt of the pamphlet will be kept in the file (see Exhibit 8);
- b) A notice to residents is required following a risk assessment/inspection using form DHS 8552, which is provided by the DHS-certified Risk Assessor/Inspector (See Exhibit 15);
- c) A notice to residents is required following lead-based paint mitigation work using the Visual Assessment and Lead-based Paint Notice of Presumption and Hazard Reduction form, LBP-1 (Exhibit 16B).

2. **Disclosure:** Prior to the homebuyer entering into an obligation to purchase a pre-1978 housing unit, the HUD disclosure (Exhibit 12), "Seller's Lead-based Paint Disclosure" notice must be signed by the seller and provided to the homebuyer for signature by the realtor and the homebuyer, and a copy of the Lead Based Paint Contingency Language Notification (Exhibit 11) must be transmitted and a signed copy retained in the project file.

3. **Inspections:** For all pre-1978 constructed properties, the City's designated inspector shall conduct a "Visual Assessment" of all the dwelling unit's painted surfaces in order to identify deteriorated paint. All deteriorated paint will be stabilized in accordance with 24 CFR 35.1330 (a) and (b); and a Clearance shall be made in accordance with 24 CFR 35.1340.

4. **Mitigation:** If stabilization is required, the contractor and the workers performing the mitigation work must be appropriately trained and certified. Prior to the contractor starting mitigation work, the Program Staff shall obtain copies of the contractor's and

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workers' appropriate certification of LBP training for retention in the project file, as applicable to the job in order to ensure that only qualified contractors and workers are allowed to perform work on the lead based paint.

5. **File Documentation:** A lead compliance checklist will be completed and placed in the project file (see Exhibit 18).

## **R. OWNER–OCCUPANCY AND INSURANCE RECERTIFICATIONS**

On an annual basis Owner-Occupancy must be verified, and on an on-going basis insurance coverage must be maintained.

1. An annual owner-occupancy certification shall be performed by FTHB program staff for all funded loans.
2. City shall be named as a beneficiary on hazard insurance policies and shall be notified of modifications or cancellations of insurance coverage. Program Staff shall ensure that annual certificates of insurance are received, provide sufficient coverage, and name the City as an added insured.

## **S. REFINANCING, PAYMENT OF PRIMARY LOAN, SUBORDINATION**

Refinancing of the First Time Homebuyer Loan shall be allowed when the proposed loan refinance amount does not exceed the then outstanding balance (plus refinancing and closing costs) of the existing Primary Loan. An appraisal must be conducted to establish the market value of the property to ensure that the total outstanding loan obligations do not exceed 95% of the property value.

In the event the homeowner refinances the Primary Loan, and the refinancing returns money to the homeowner, the homeowner must use the loan proceeds to pay down the City loan, thereby reducing the principal loan balance owed on the City loan.

Requests for subordination shall be considered on a case-by-case basis. After subordination, the sum of all outstanding loans may not exceed the lower of either the HOME Maximum Purchase Price for existing homes in effect at the time of the refinance, or 95% of the property's appraised market value. Subordination Requests shall be performed in conformance with the procedures detailed in Exhibit 29, First Mortgage Refinancing and Subordination Policy Acknowledgement Exhibit 28 and Request for Refinancing and Subordination form Exhibit 30.

A FTHB loan may be repaid at any time without penalty.

If there is a property sale, transfer, or program default of the conditions of the promissory note or the Affordable Housing Restriction, the City will ensure recovery of the HOME investment amount provided under the City Loan. Notwithstanding the preceding, In the event that the Net Proceeds resulting from a sale are not sufficient to provide for the full return of the Borrower's investment inclusive of the original down payment and capital improvements performed on the acquired property (subject to City verification and approval), then the Borrower shall be entitled to recover their original down payment amount and City approved capital improvement amounts before the City recapture of the HOME investment amount (the City Loan). For the purposes of this calculation, net proceeds shall mean the sales price minus the repayment of the Primary Loan

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undertaken to acquire the Property (other than HOME funds) and any closing costs. Capital improvements means those improvements legally made by Homeowner to the Property after the closing of Homeowner's purchase of the Property, with a minimum cost of Two Thousand Five Hundred Dollars (\$2,500) per item, and a useful remaining economic life of not less than five (5) years, as approved by the City and documented by invoices and receipts which the Homeowner certifies to be true and correct.

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## **SECTION III PROGRAM ADMINISTRATION AND PROCEDURES**

### **A. ADMINISTRATION**

The City of Lancaster's First Time Homebuyer Program is designed to be used in conjunction with standard lender mortgage loan application procedures. The processing procedures for the Program are outlined within this section and compliment processing procedures that are utilized at most mortgage lending institutions. The City of Lancaster is by definition the Administrator of the FTHB Program.

### **B. APPLICATION**

The Program Application must be accompanied by the following documents in order to be considered a complete and acceptable application package:

1. Completed City of Lancaster's First Time Homebuyer Application
2. Photo IDs for all adult (18 years of age and older) household members
3. Signed copies of last three (3) years federal tax returns
4. Copies of three (3) consecutive months current pay stubs
5. Last three (3) consecutive months of bank statements and asset statements
6. Documentation in the form of a bank statement or other acceptable asset statements, of seasoned cash funds (90 days) available for borrower's down payment and closing costs
7. Signed 4506-T
8. Signed Fair Lending-ECOA Notice
9. Applicant signed Income Verification Form and Employment Verification Form

Applications will not be processed if any of the above items are not provided at the time of the submission. There will be no exceptions to this rule.

1. Program Staff will review submitted application materials;
2. Program Staff will package applications for Loan Review Committee approval, and prepare Exhibits 6 and 7 for Loan Review Committee consideration; and
3. Notify applicant of the outcome of loan approval.

The Loan Review Committee (LRC) shall consist of the Housing Manager, Finance Director, and Development Services Director, or their designees. Complete application packages will be reviewed by the LRC members for approval based upon the Program underwriter's recommendations. In order to proceed, all LRC Members must approve all Program loans and requests to subordinate Program loan liens.

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## C. LOAN PROCEDURES

The following discussions set forth the sequence of events and the procedural tasks for the FTHB Program. The discussion is organized into three (3) major phases: the Application Phase, Reservation Phase, and Loan Closing Phase. The respective phases are divided into major steps directly associated with applicant, administrator and/or lender activity.

### 1. APPLICATION PHASE

#### 1.1 INITIATION AND SUBMISSION

The Applicant applies to the City of Lancaster First Time Homebuyer Program. Program staff will respond to all applicant inquiries to ensure the best chance of preliminary approval. Applicant is provided with the FTHB application packet with instructions to fill out completely and return to the City.

#### Applicant

- Completes the Program Application, collects supporting documentation, and submits to City

#### 1.2 CITY REFERRAL CORRESPONDENCE

Program Staff reviews the FTHB application, performs a preliminary eligibility review. If the Applicant is deemed eligible based on income and as a first time homebuyer, a LRC Transaction Summary Form is prepared, a LRC Meeting scheduled, and a LRC determination obtained. If the Applicant receives a preliminary approval by the LRC, a pre-approval letter and an Initial Reservation Request Form (FTHB-1) is issued to the Applicant along with instructions for the next steps in the approval process and advised of 90 day completion period.

#### Program Staff

- Reviews application submission and issues written review correspondence to Applicant

#### Lender

- Processes only applicants who provide a City Reservation Request Form

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### 1.3 PRE-QUALIFICATION

The applicant takes the Reservation Request Form to a lender. The FTHB subsidy is estimated at this time by the lender in order to establish the home purchase price the applicant can afford. The FTHB Loan amount is 40% of the purchase price of the property, or the amount required to maintain a 33% front end ratio (financing gap), or \$150,000, whichever is lower, in addition to closing costs which cannot be paid by the Applicant, subject to other program limitations.

Upon receipt of the lender acknowledgement that they are processing a loan request from the Applicant, and a pre-qualification loan commitment, the City prepares realtor documentation to be delivered by the applicant to their selected realtor.

#### **Lender:**

- Verifies that applicant has the City pre-approval letter
- Provides information on their mortgage program
- Determines if applicant is eligible under City income & purchase price limitations
- Explains FTHB Loan so that applicant understands home size and home costs based on income availability
- Completes the City form FTHB-1, and transmits to the City

#### **Applicant:**

- Obtains Pre-qualification from lender

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## 2. RESERVATION PHASE

### 2.1 MORTGAGE LOAN REQUEST

The applicant formally applies for a Primary Loan.

#### **Applicant:**

- Applies for a Primary Loan
- Completes approved Homebuyer Education Course

#### **Lender:**

- Processes Primary Loan request and provides a conditional approval to Applicant

#### **Program Staff:**

- Upon receipt of FTTHB-1, reviews contents and transmits Arm's Length Disclosure Notice, LBP Contract Contingency Language, and LPB disclosure forms to Applicant for transmission to Sales Broker (see Exhibit 10 and Exhibit 11 and 12).
- Transmit LBP Pamphlet and Receipt Confirmation form to applicant for signature and return (Exhibit 8 and 9).

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## 2.2 HOME PURCHASE AGREEMENT

Applicant selects a realtor and provides realtor with City Program processing documentation. The applicant finds a home, enters into a contingent purchase contract, based on the lender loan approval and FTHB amounts. This must be completed within 90 days from the date of the referral letter.

### **Applicant**

- Enters into purchase contract with contingency language based on City approval of loan funding and loan amount, and inspection of property and LBP review.
- Advises City of property address and forwards a copy of the contingent purchase agreement and required LBP Contingency language, Seller Disclosure Form, and Arm's Length Purchase Offer.

### **Program Staff:**

- Reviews purchase contract to ensure conformance with maximum purchase price requirements
- Completes environmental review of property (Exhibit 13)

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### 2.3 LENDER FT HB LOAN SUBMISSION

Applicant completes and signs the City Form FT HB-2, which contains all certification & affidavits, required by the Program. They are:

- Certification that residence will be used as Principal Residence and that the City certificate holder must notify the City and the Lender when the home ceases being the Principal Residence of the FT HB certificate holder.
- Certification that borrower has not had an ownership interest in a Principal Residence during preceding 3-year period.
- Certification that the Purchase Price does not exceed Purchase Price limits.
- Certification that the Mortgage Loan does not relate to the acquisition or replacement of an existing mortgage.
- Certification that loan applied for does not constitute a Prohibited Mortgage.
- Certification that borrower's income does not exceed permitted income limits.
- Certification that no interest with respect to the mortgage loan is being paid to a Related Person.
- Certification that FT HB Loan cannot be transferred without the prior written approval of the City in accordance with Program requirements.
- Certification that FT HB applicant has completed an approved 8-hour in-class Homebuyer Training course.
- Acknowledgment that any material miss-statement or fraud is made under penalty of perjury.

#### **Lender**

- Submits Loan approval documentation to Program Staff.

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## 2.5 LENDER UNDERWRITING

Within the reservation period of 90 days, the lender must perform the following standard underwriting and verification procedures:

- Lender performs standard mortgage loan underwriting procedures, but takes into consideration the effect of the FTHB Loan when determining the net amount of the monthly payment. Lender determines acceptability of loan in accordance with applicable FNMA, FHLMC, FHA, VA, and/or private mortgage insurance standards and/or underwriting guidelines.
- Lender performs standard verification for loan underwriting. In conjunction with Lender's regular verification process and under the agreement with the City, the Lender performs a reasonable investigation to verify that all FTHB Program requirements have been satisfied. Lender may verify these facts in any reasonable, efficient manner, according to standard industry practices for processing mortgage loan applications.
- Lender verifies that the borrower, the home and the mortgage transaction comply with FTHB restrictions on Income, Purchase Price, and other Program terms and requirements.
- Lender completes all other standard underwriting and verification procedures. During this Phase, the Lender must notify the Administrator in writing of cancellations of Reservations.
- Lender submits a complete copy of the lender loan package, inclusive of lender loan application, appraisal, good faith estimate, loan approval letter detailing amount and terms of the loan to be provided, sample promissory note, and purchase contract.

### Lender:

- Underwrites mortgage loan and verifies eligibility
- Lender provides a complete copy of the loan file to the City

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## 2.6 PROPERTY INSPECTION AND TESTING

Upon designation of the selected residential property for purchase, Program staff will obtain building records for the property, schedule an on-site inspection of the property for conformance with HQS requirements, and for any required Lead Based Paint Review and Testing.

In the event that the property does not meet HQS requirements, Program Staff will issue correspondence addressing corrective measures that must be undertaken to provide compliance, and which provides timeframes for completion of the indicated corrective measures. Upon completion of the corrections, Program Staff shall re-inspect the property for compliance.

In the event that the Lead Based Paint review and testing determines that additional actions are required to address the presence of Lead Based Paint, Program Staff shall review the results and make a determination regarding the cost and availability of resources to address any required corrections. If Lead Based Paint corrections are performed, Program Staff shall ensure that corrections are performed in accordance with all applicable HUD, EPA, and CalOSHA protocols and requirements.

## 2.7 SUBMISSION PACKAGE REVIEW

On receipt of the Submission package from the Lender, Program Staff completes the following:

- Confirms that the FTHB Reservation is still active and has not expired. If expired, a 30 day written extension may be issued.
- Review of FTHB Submission Package for completeness and determines whether all necessary certifications and affidavits are included and properly executed.
- Determines consistency of the Primary Lender file with the documentation received from the Applicant by the City.

If the Administrator determines the FTHB Submission Package is completed properly and that the applicants and the transaction are in compliance with program provisions, Program Staff issues correspondence to the Lender with copy to applicant advising of the City Loan amount and stating that the application is approved and the City is prepared to issue a FTHB Loan upon confirmation of the mortgage closing, so long as there are no material changes from the time of the initial review. The Administrator retains a complete copy of the Submission Package.

### **Program Staff:**

- Schedule and perform HQS Inspection
- Issue Correction Notice as necessary, and perform follow-up reviews
- Complete LPB Visual Assessment Form (Exhibit 19)
- Schedule LPB Review and Inspection, as required
- Coordinate LPB corrections, as required

### **Program Staff:**

- Review FTHB Submission Package
- Issues Final Approval Letter to Lender
- Send copy of Final Approval Letter to applicant

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### 3. LOAN CLOSING PHASE

With submission of the Final Approval Letter and Loan Package to the Lender, Program Staff requests the approval of the mortgage loan.

#### 3.2 LOAN APPROVAL

The Lender approves the mortgage loan with the applicant pursuant to normal procedures.

Lender notifies the City of approval of loan application and forwards all loan and FTHB materials to selected Escrow Officer with instructions to open escrow.

#### **Lender:**

- Approves loan
- Forward documents to escrow

#### **Program Staff:**

- Transmits and obtains signatures on a Participation Agreement (Exhibit 21) from Participant and City official.
- Enters transaction into IDIS and commits HOME funds

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### 3.3 ESCROW

Program Staff prepares City loan documents and Escrow Instructions, and obtains required City signatures. Completed documents are submitted to escrow.

Program Staff arranges for the transfer of FTHB Loan funds by wire transfer, or check to Escrow. The FTHB documents will be transmitted to the Escrow for recording at the same time as the first mortgage deed of trust.

The documents also include:

- Closing Affidavit (FTHB-3) signed by applicant at closing.
- Lender's Closing Certificate (FTHB-4) certifying that there has been no material change that would disqualify applicant from program.

#### **Lender:**

- Funds Primary Loan

#### **Program Staff:**

- Prepare loan documents, obtain required signatures & fund FTHB Loan
- Prepare Escrow Instructions for signature and transmission to escrow
- Ensure compliance with post-escrow requirements: recordation of the city's deed of trust, obtaining of a lender's title policy and review for placement of the City lien, obtaining a tax service account for the term and amount of the City Loan, review of the closing statement to ensure conformance with previously indicated transaction terms.
- Transmits original signed promissory to records depository for loan booking and storage
- Ensures receipt of the recorded deed of trust and transmittal to the records depository for storage.

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## **SECTION IV FTHB POLICY DISCUSSIONS**

### **A. PRIMARY LENDER LOAN CHARGES AND FEES**

The Primary Lender may charge a potential borrower applying for a FTHB Loan only those reasonable and customary fees as would be charged to a potential borrower applying for mortgages not provided in connection with a FTHB Loan. The imposition of excessive processing charges, fees, or interest rates which are not consistent with market conditions will be cause for denial of the City loan approval.

### **B. FTHB LOAN REVOCATION**

The following conditions shall be cause for revocation of the City approval for a FTHB loan:

1. Unless waived in writing by the City, whenever the FTHB borrower is not in compliance with the qualification requirements for a FTHB Loan.
2. Upon discovery by the City, Program Staff, or a Participating Lender of any material misstatement, whether negligent or fraudulent.
3. Upon City receipt of lender notification of any circumstance which would disqualify a FTHB Loan recipient from eligibility under the Program.

### **C. TRANSFER OF FTHB FOR MORTGAGE ASSUMPTIONS**

The FTHB loan is not transferable or assumable. When assumption of a mortgage associated with a FTHB Loan occurs, the FTHB Loan may not be assumed by the new buyer. If the buyer and the home are qualified, the new buyer may apply for a new FTHB Loan.

### **D. TRANSFER OF A FTHB LOAN APPLICATIONS TO ANOTHER LENDER**

If an Applicant has a pending FTHB Loan application and decides to change from one Participating Lender to another, the City will honor the original expiration date of the reservation as long as the buyer and the Property's status has not changed and the new Lender verifies the commitment documents.

If the change occurs following the Confirmation of Reservation, the new Lender should notify the City in writing that the change has occurred. The City will adjust its records and the FTHB Loan Number to reflect the new Lender.

### **E. ASSIGNMENT OF FTHB LOAN COMMITMENT FOR FUNDING**

If a Primary Lender packages a loan with a FTHB Loan and assigns the loan to another Lender for funding, prior to the close of escrow the original Lender should forward to Program Staff the FTHB Loan Assignment Letter indicating the loan has been assigned to the new funding Primary Lender, and identifying the new lender and lender contact information. Program Staff will adjust its records to reflect the new Primary Lender. The FTHB Loan will be issued in the funding

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Primary Lender's name. The funding Primary Lender will also be responsible for the reporting on that particular loan.

## **F. CHANGING PROPERTIES DURING FTHB APPLICATION PROCESS**

If an Applicant has a pending application and changes the property they are purchasing, the Realtor must perform the required pre-agreement notifications and contingency inclusions into the new purchase agreement, and in conjunction with the Lender submit a new signed Purchase Agreement and indicate by transmittal whether the mortgage amount has changed. If the Applicant has already been issued a commitment, the following documents should be revised and re-submitted to reflect the new property address and any change in mortgage amounts.

Application Affidavit (FTHB-2)

The Commitment is re-issued with the original expiration date.

The revised property must also undergo environmental review and inspection for conformance with the City's HQS and Lead Based Paint requirements.

## **G. RESUBMISSION OF FTHB CERTIFICATE APPLICATIONS RETURNED OR REJECTED**

If a Program Application has been returned or denied by Program Staff based on the Applicant submitted Program forms and documentation, any resubmission must include all information which Program Staff has determined necessary for reconsideration. A Program Application that is being submitted a second time will be reviewed in depth, and a final disposition made by Program Staff.

## **H. CHANGES PRIOR TO CLOSING**

The eligibility of Applicant for a FTHB Loan is based upon the Applicant's projected income. The Program will issue a commitment based on facts as they are verified as of the date the commitment is issued. The income verified for commitment is valid as long as the loan closes within four (4) months after the financial information was originally submitted and there are no additional sources of income that were not previously reported.

Any changes in income whether already reported or not (e.g.: unscheduled raises, new employer, etc.) affects the validity of a FTHB commitment and must be taken into consideration. If the Applicant experiences a change in marital status after issuance of the commitment and prior to closing, the spouse must satisfy the prior homeownership requirements contained in the Application Affidavit and the Closing Affidavit, and the Lender must notify the FTHB Program. Any income added to the household income previously declared because of the new spouse should be considered and may affect the validity of the commitment.

Furthermore, any added or reduced source of income received after the issuance of the commitment, but prior to closing, should be disclosed and included in the income eligibility redetermination and potentially to the City funding amount determination.

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## **I. RECORDS RETENTION**

Records for all transactions, funded and un-funded shall be retained for five (5) years after the project completion date, except for documents imposing resale restrictions which must be retained for five years after the affordability period terminates, or until the acquired property is transferred and the City loan is fully paid, whichever is longer.

## **J. NON-DISCRIMINATION**

The Program will be implemented in a manner consistent with the City's commitment to non-discrimination. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity funded in whole or in part with State or Federal funds on the basis of his or her religion or religious affiliation, age, race, color, creed, gender, sexual orientation, marital status, familial status (children), physical or mental disability, national origin, or ancestry, or other arbitrary cause.

## **K. TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

The City adheres to Title VI of the Civil Rights Act of 1964 which provides that no person shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

## **L. POLICIES AND PROCEDURES CHANGES AND MODIFICATIONS**

Minor changes to these Policies and Procedures involving administrative procedures or accommodations to adapt to regulatory changes may be performed with the approval of the Housing Manager. All other changes require the approval of the Director and/or City Manager. HOME regulatory requirements may not be amended.